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Stanga, Irina Mihaela

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Bank Fragility and Financial Stability Policies

van Irina Mihaela Stanga

1. Economic crises have different causes and inquire for different types of policy measures. However, regulation is always lagging so we can hopefully only avoid some mistakes from the past such that the next crisis can happen for entirely different reasons (Chapter 1).
2. Bailout policies were effective in reducing the default risk of banks, however they generated a risk transfer from banks to governments and amplified the bank-sovereign contagion channels in Europe (Chapter 2).
3. A high reliance on wholesale funding has negative implications for bank stability and these negative effects are amplified in a competitive environment (Chapter 3).
4. A loan portfolio financed with high leverage implies higher overall risk even if it consists of safe assets (Chapter 3).
5. Macro-prudential policies, and in particular lower regulatory loan-to-value ratios, are associated with a reduction in mortgage defaults (Chapter 4).
6. Institutional quality plays an important role in amplifying the effectiveness of macro-prudential tools (Chapter 4).
7. "The difficulty lies not so much in developing new ideas as in escaping from old ones." John Maynard Keynes
8. "Faced with the choice between changing one's mind and proving that there is no need to do so, almost everyone gets busy on the proof." John Kenneth Galbraith
9. "By all means, marry. If you get a good wife, you'll become happy; if you get a bad one, you'll become a philosopher." Socrates. The same holds for working on a PhD.
10. "Science cannot solve the ultimate mystery of nature. And that is because, in the last analysis, we ourselves are a part of the mystery that we are trying to solve." Max Planck